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The Energy Consortium

A non-profit Organization of Industrial, Commercial and Institutional Energy Users

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July 30, 2002

Mary Cottrell, Secretary
Department of Telecommunications and Energy
Commonwealth of Massachusetts
One South Station –2nd. Floor
Boston, MA 02110

Re: Investigation by the DTE on its own Motion into the Provision of Default Service
Docket No. D.T.E 02-40

Dear Secretary Cottrell,

TEC is a nonprofit organization representing large C&I energy users in Massachusetts for over 30 years. It advocates positions that promote responsible use and reliable energy delivery at fair and reasonable rates for its members and all Massachusetts ratepayers. Its members continue to bare the effects of the retail electricity competitive market and the continuation of Default Service after March 2005. TEC members (especially for 24/7 production facilities) are very concerned that costs are escalating faster than their products, services and fees can tolerate. TEC members and other industries are quietly moving energy sensitive operations from Massachusetts. They are electing not to expand local operations, due in large part to the high cost of electricity and other legislated energy bill adders (i.e., energy efficiency, renewables, and stranded costs). Massachusetts rates remains among the highest within the US. This was an issue before restructuring and has exacerbated since.

TEC members firmly believe that a free market is the ultimate goal for Massachusetts's retail customers. Also, we need to consider current DTE filings and orders that could lead to a less regulated competitive retail environment. To this end, TEC submits the following comments on Default Service:

Default Service, last resort service, or a new title (i.e., interim or basic service) should continue. For the first two years, it was priced close to the Standard Offer. Consequently, no serious issue for ratepayers emerged even as competitive suppliers defaulted on service. When the Electrical Restructuring law was enacted, no one expected that residential ratepayers would make up approximately 85% of the total body of default customers nor the effects of fuel price increases and ICap charges. Only now, default prices are adjusting dramatically downward. The Competitive

Energy Supply market is working for large C&I Customers as evidenced by continued migration to the retail market (still only about 42% of customers). TEC supports the continuation of programs that will provide "Interim Service" (IS) for those who do not have or lost their retail competitive supplier service. However, there is a need to develop process to move the remaining customers on SOS and those on default service to competitive suppliers that is price transparent to customers.

Interim (Default) Service characteristics:

?? **Residential and Small commercial should have a structure that reflects seasonal energy prices based on rolling average <u>long-term</u> wholesale supply contracts with no true-up cost permitted.**

  ?? Rolling procurement for two or more year periods (preferably 3yrs.) by the utility with one or more wholesale suppliers

  ?? Annual fixed prices based on simple pass through of staggered procurement cost

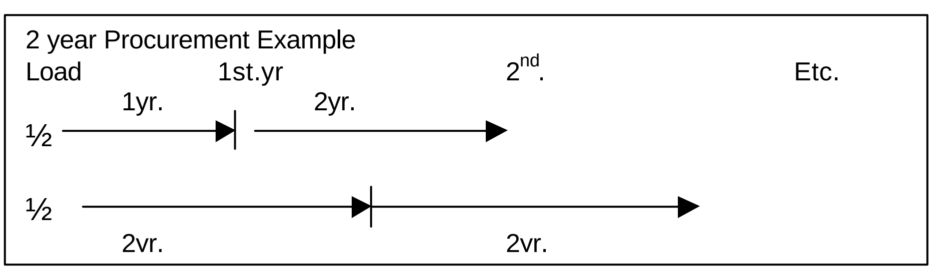
?? **Large C& I Interim Service should have a pricing structure that truly reflects near-term market costs, incorporates customer load factors, encourages energy conservation and promotes efficient on-site power generation.**

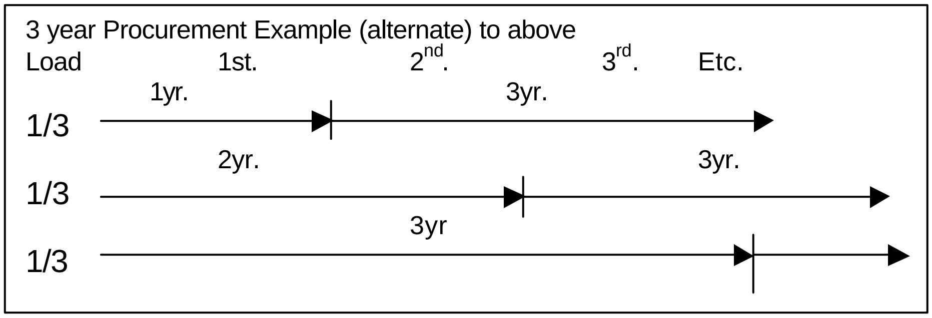
  ?? Interim Service pricing mechanisms properly structured should facilitate the continuation of large customer migration toward competitive retail supply

  ?? IS Prices should reflect near-term (2-3 years for large C&I's) market prices. This will allow customers to compare IS prices to their competitive bids that generally cover 2-3 year periods. TEC believes that wholesale suppliers will adjust their bids to the provider of IS on 2-3 year contacts to cover market contingencies. Now, IS should reflect retail supplier contracts for large C&I's. This will encourage IS customers to aggressively pursue retail supplier bids once they determine that it is to their advantage over the same period.

  ?? Prices absolutely should not be, and do not need to be, artificially raised to encourage both customer and retailer market participation

  ?? IS price forecast (one year or more) is more important for this class of large C&I's.





With the above two examples, one can achieve an annual fixed residential and small business (both cases) and reflect “near –term” future contracting cost/retail prices for 2 to 3 years by large C&I’s.

?? Large C&I individual pricing should reflect the average bid price/kWh load and the average load factor. Unless this is done by the IS retail supplier, the IS price structure is socialized thus masking the true price of electricity based on customer demand. In addition, Local Marginal Prices of electricity will influence customer procurement strategy in load pocket areas and therefore should be included in the IS price.

?? **Interim (Default) Service or service by any other name be bid and provided by competitive retail suppliers and definitely not handed automatically to the regulated distribution companies.**

?? No alternative service offerings should be offered by the utilities so long as there are available pricing options by retail suppliers.

?? The customer should clearly understand who is his IS energy provider(s) (not the utility) and it is the customer’s option to contact them or other providers for competitive retail bids.

TEC recommends that:

?? For large customers, Interim Service should be based on multiple rolling annual purchases of wholesale supply for up to 3 years that reflects seasonal adjusted pricing and should be sensitive to time of day and customer load factor. Perhaps there should be 3 levels of pricing based on load factor (0-60%, 60- 75%, 75% and above) for IS customers.

Note: It has been TEC’s experience that competitive suppliers price contacts relative to load factor (one obvious ingredient). Therefore, IS should reflect that approach.

- ?? Gaming by any party (wholesale supplier, utility, retail supplier or customer should be subject to significant penalties; however, customers should have the right to leave after a defined period. Perhaps no penalty for less than a month on IS.

- ?? Procurement periods should be staggered and prices averaged and should apply to all IS customers (residential, small and large C&I's)

Respectively submitted,

Roger Borghesani, Chairman
The Energy Consortium